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Cigar makers' international union
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Brief presented to the President
of the United States...

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INDUSTRIAL RELATIONS

BRIEF

Presented to the President of the United States
for consideration with the Proposed Code
of Fair Competition for the

CIGAR MANUFACTURING INDUSTRY

Submitted by

I. M. Ornburn, President
Cigar Makers' International Union of America
604 Carpenters' Building
Washington, D. C.

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THE CIGAR MANUFACTURING INDUSTRY

Trends in Production

The cigar industry of the United States reached its peak in 1920 when 7,937,000,000 large cigars (weighing more than three pounds per thousand) were produced. Since that year the industry has shown one period of stability and one of decline. From 1921 to 1929 the annual production of cigars ranged between 6,373,000,000 cigars (in 1928) and 6,950,000,000 (in 1923). This period was followed by a sharp decline which in 1932 brought the production to 4,442,000,000, the lowest point since 1897, when the population of the country was appreciably below that of 1932.

The following table shows cigar production since 1920:*

Year		*Cigars Weighing Over Three Pounds Per Thousand*
1920		7,937,016,000
1921		6,726,000,000
1922		6,722,000,000
1923		6,950,000,000
1924		6,598,000,000
1925		6,463,000,000
1926		6,499,000,000
1927		6,519,000,000
1928		6,373,000,000
1929		6,519,000,000
1930		5,894,000,000
1931		5,348,000,000
1932		4,442,000,000
1933:		
January	296,640,000	
February	287,430,000	
March	290,111,000	
April	321,207,000	
May	371,373,000	
June	418,570,000	
July	400,511,000	
August	434,820,000	
Eight months		2,820,662,000

* Source: U. S. Bureau of Internal Revenue.

This decline was accompanied by a shift from the medium and high-priced cigars to the class of cigars retailing for 5 cents or less each. In the following table the percentage of total production covered by Class A cigars (those retailing for 5 cents or less) since 1921, is shown:

Year	*Percentage of Class A to Total*
1921	30
1922	39
1923	37
1924	40
1925	41
1926	44
1927	49
1928	52
1929	55
1930	61
1931	69
1932	78
1933	86.2 (first nine months)

On the succeeding page is a chart which shows the trend of total production since 1921 and the share of total output represented by Class A cigars. It is followed by a chart showing production by classes from 1926-32. Until 1932 the Class A cigar increased both relatively and absolutely. Its ascendency may be attributed largely to the increased use of the automatic cigar-making machine; and it is essentially the product of mass production.

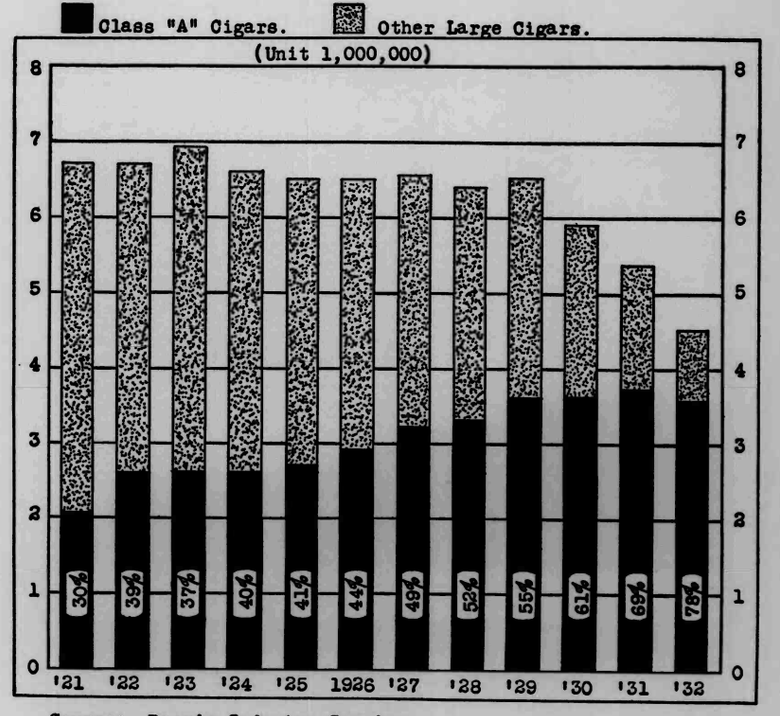
The effect of this trend toward mass production upon employees in the cigar industry has been disastrous. First, mechanization of the industry has displaced numerous handworkers. Second, the Class A cigar, which is largely made by machine, has been widely held to lack sufficient smoking satisfaction to attract new smokers among the younger generation, with the result that cigar smoking has declined and faces a continuous decline in the future. This decline will be felt by the employees as well as the employers.

These trends of production are mentioned because of their bearing upon the welfare of the industry and therefore upon the employees. On a later page appears the remedies proposed.

CIGAR INDUSTRY

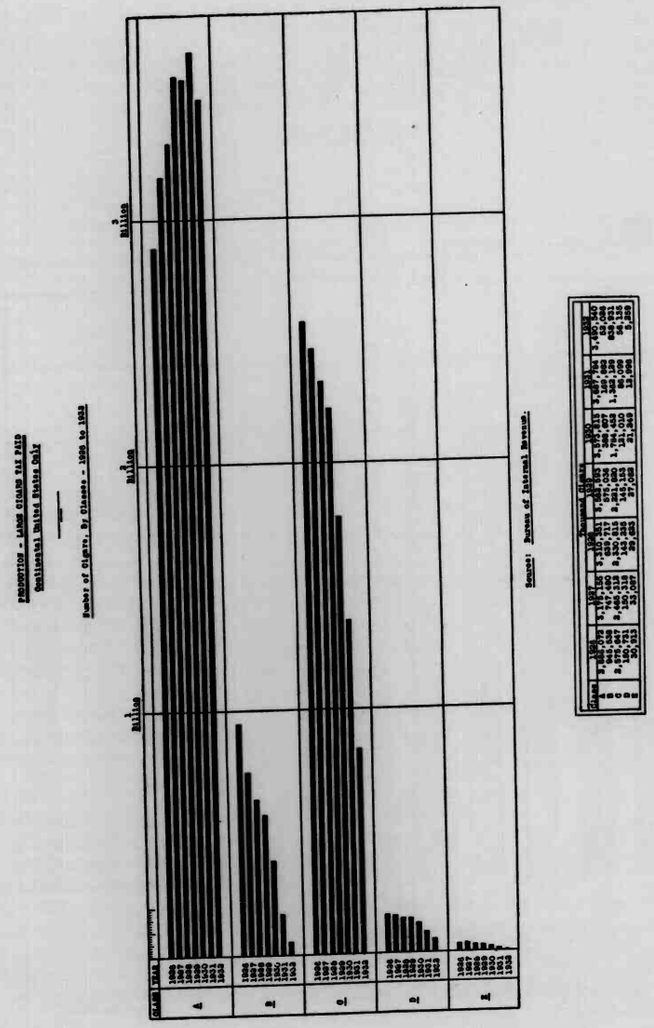
Production of Large Cigars - Total and Class "A" - In Registered Factories in United States

1921-1932



Source: Poor's Industry Service.

NOTE:
First eight months of 1933, Class A production is 86.2% of total.



Employment and Wages

Employment has suffered severely in the industry because of the operation of the two forces already mentioned: (1) mechanization of the industry; (2) decline in production. It has been cogently argued that the latter is in a considerable degree the offspring of the former; but no statistical proof can be submitted because the factors of decline cannot be isolated.

From the Monthly Labor Review of December, 1931, page 13, the following table estimating the displacement of cigar workers by machine installation, was obtained:

Year	*Estimated Machine Production (Cigars)*	*Estimated Number Machine Employees Required*	*Estimated Number Hand Workers Required for Same Production*	*Estimated Number of Employees Displaced*
1917.....	1,500,000	9	20	11
1919.....	181,500,000	1,089	2,420	1,331
1921.....	401,250,000	2,408	5,350	2,942
1923.....	632,250,000	3,794	8,430	4,636
1925.....	956,800,000	5,742	12,757	7,015
1927.....	1,824,700,000	10,949	24,330	13,381
1929.....	2,290,500,000	13,743	30,540	16,797
1931.....	2,912,250,000	17,474	38,830	21,356

The estimate of the number of machine employees required is obviously a liberal one. Automatic cigar machines have an output of 8 cigars per minute. If we allow operation at 7 cigars per minute, 48 hours per week, 50 weeks to the year, a production of 1,008,000 cigars per machine results. Consequently, 2,889 machines would be required to produce 2,912,250,000 cigars, which is the number given for 1931. Since each machine requires 4½ operatives (including machinists, oilers, etc., as estimated by the Department of Labor), only 13,000 operatives would be required instead of 17,474 as estimated. The lower figure, moreover, approaches more closely the one obtained by the Bureau of the Census in a recent survey of the cigar industry. The higher figure apparently includes strippers, packers, and similar workers in addition to actual cigar makers.

In any event, the prejudicial effect of the automatic cigar machine upon the welfare of the cigar workers is obvious. The introduction of these machines in each instance necessitates the disemployment of over 50% of the handicraft labor. The procedure involves, furthermore, the displacement of skilled operatives by largely unskilled ones. Among the 12,001 machine operatives in the cigar industry, recently reported by the Census Bureau, only 23 were men. The women operatives require little skill and therefore cannot command high wages. For this reason, the purchasing power of the cigar workers recedes through the increasing use

of machines not only because displacement of workers is effected, but also because of the lower wage scale which follows.

That the cheapening of the cigar by the more economical machine production has not resulted in greater consumption of cigars is proved by the statistics of production. While Class A cigars have increased relatively with respect to total production, their output has declined since 1931. Without helping, and probably injuring cigar consumption, machine production has severely reduced employment.

The extensive unemployment which has resulted from the two factors previously mentioned is revealed by the statistics compiled biennially by the Bureau of the Census:

Year	*Number of Establishments**	*Wage Earners (Average for the Year)*	*Wages*
1927.....	1,960	94,556	$76,469,741
1929.....	1,587	84,166	67,222,095
1931.....	1,063	68,182	46,074,013
1933**.....	950	52,273	26,223,000

* Establishments with products valued at $5,000 per year or over.

** In a recent survey made by the Census Bureau in which 950 establishments, including all the large ones, reported, the number of wage earners as of July 1, 1933, was given as 52,273. The average weekly wage from January 1 to July 1, 1933, was reported to be $474,041. Multiplied by 52 weeks the total for the year would be $24,650,000. This total may, however, be considered too low since production during the second half of the year normally exceeds that of the first half, and wages are largely on a piecework basis. From 1926 to 1932 (both years inclusive) the total output of the first six months was 46.98% of the total. In other words, the weekly wage of $474,041 multiplied by 26 weeks (six months) may be taken to be equal to about 47% of the total annual wage for 1933. The latter would thus come to $26,223,000. Inasmuch as wages are largely paid on a piecework basis, this result may be accepted as reasonably accurate.

The average weekly wages, calculated from the Census figures, may be obtained by dividing the total annual wage by the number of wage earners and then further dividing the average annual wage of each worker by 52. This operation gives the following result:

Year	*Average Weekly Earnings*	*Index Numbers 1927=100*
1927.....	$15.55	100.0
1929.....	15.36	98.8
1931.....	13.00	83.6
1933*.....	9.65	62.1

* Estimated on returns for first six months of 1933, as explained above.

In contrast with this decline in average wages paid, the wholesale price of cigars declined only slightly from 1926 to 1931, as may be seen by consulting the chart on the next page. Since 1931 (the latest year shown on the chart) there has been a further decline, but not a serious one. Following are the figures from which the chart was drawn, brought down to 1933:

Year	*Monthly Average Per 1,000*	*Index Numbers 1926=100*
1926.....	$52.808	100.0
1927.....	52.848	100.1
1928.....	52.714	99.8
1929.....	52.427	99.3
1930.....	51.044	96.7
1931.....	49.767	94.2
1932.....	49.048	92.9
1933*.....	46.499	88.05

* First six months.

Source: Department of Commerce, Survey of Current Business.

Whereas wages fell to 62.1, the wholesale price declined only to 88.05. It is also noteworthy, as shown on the chart, that the share of the total value of the manufactured product received by labor has declined from 25.1% in 1919 to 20.3% in 1931. No figures for 1933 are available on this point. Overhead, other expenses and profit, on the other hand, increased from 30.8% in 1919 to 34.1% in 1931. Labor's share, in other words, declined 19% whereas the share going into overhead, other expenses and profit increased nearly 11%. That this gulf between payment to labor, on the one hand, and overhead, other expense and profit, on the other, has been widened cannot be open to doubt. Wholesale prices have not declined in proportion to the decline in average weekly wage, indicating that labor's share is now even less than it was in 1931.

Labor, therefore, has suffered out of proportion to the other factors of production. It has suffered from severe dislocation by machinery and, in addition, from reduced wages. See the chart on the second following page.

In order to restore cigar labor to its previous purchasing power, two primary readjustments would therefore have to be made: (1) Reduction of weekly hours of work; and (2) increase in wages.

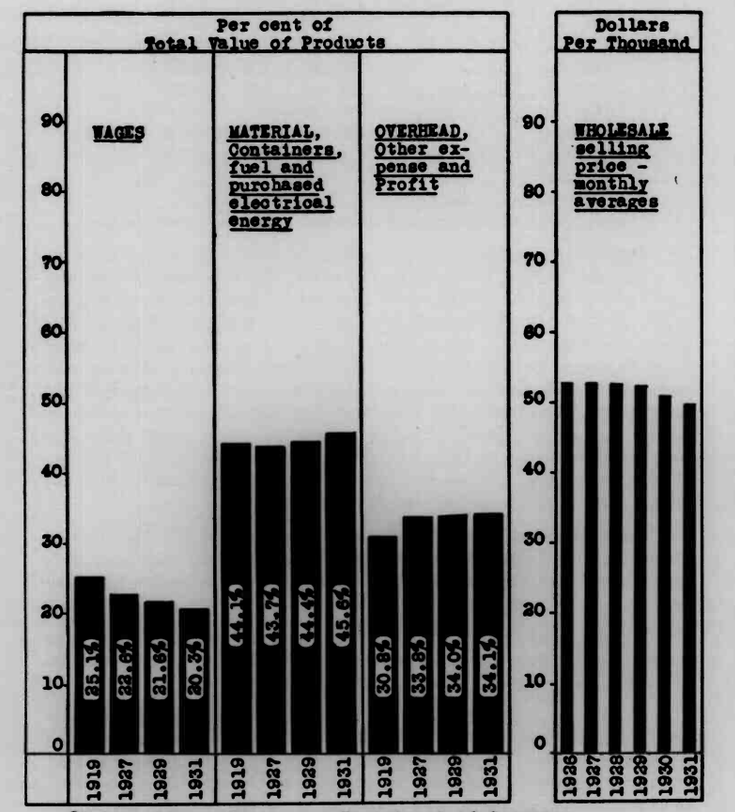
1. Using the Census statistics of employment, we find a reduction of 35.7% in employment since 1929, if the number of wage earners for 1933 is accepted as 54,000 in place of 52,273 as reported by the Census Bureau from almost complete returns. If, on the other hand, 1927 employment is used as a basis of comparison, employment on July 1, 1933, was 42.8%

CIGAR INDUSTRY

Percentage Distribution of Value of Products

and

Average Wholesale Selling Price

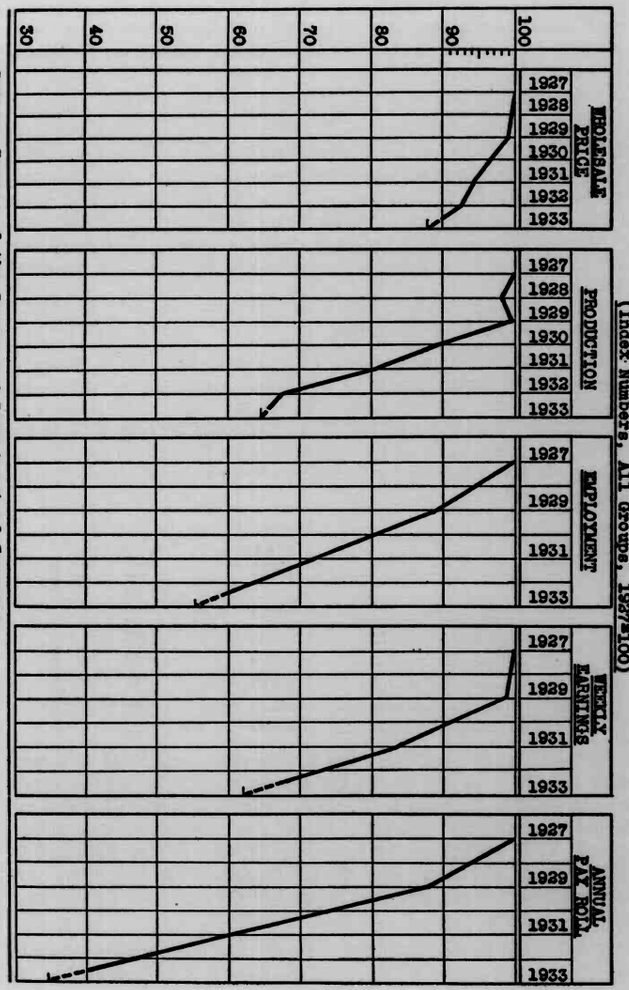


Source: Census Bureau and Department of Commerce.

CIGAR INDUSTRY

Trends in Factors Affecting Wage Earners

(Index Numbers, All Groups, 1927=100)



Source: Bureau of the Census and Department of Commerce.

off. Average hours worked were about 45 per week. Reduced by 35.7% (the percentage of unemployment as based on 1929 employment) a decrease of 16.11 hours per week would be indicated, or 29 hours of work per week. If the 1927 employment figure were to be used, a still greater reduction would be entailed.

2. Weekly earnings had fallen to 62.1 on July 1, 1933, compared with 1927, and to 62.8 compared with 1929. The cost of living index, as compiled by the Bureau of Labor Statistics, stood at 72.9 in June, 1933, but has obviously increased appreciably since that time. This indicates that wages had been reduced considerably more than the cost of living had fallen. In an industry in which wages have been notoriously low, this reduction was an added burden of economic misery. The rates proposed to restore, as far as possible, the purchasing power of 1929, are given on a later page.

Handicraft and Machine Production

Unfortunately the manufacture of cigars in the United States is divided between various stages of handicraft manufacture, on the one hand, and fully mechanized production, on the other. The process of mechanization began about 15 years ago, and today perhaps 60% of the total output is produced by automatic machinery. Poor's Industry Service, **Tobacco Industry**, gives the number of machines and percentage of total output as follows:

Year	*Number of Machines*	*Per Cent of Total Output*
1924	1,085	....
1926	.....	18
1927	2,300	....
1928	.....	35
1929	3,500	40
1930	4,170	47
1931	.....	56
1933	4,600	....

By consulting the statistics given on a previous page, it can be demonstrated that 100% of the output (at present about 4,500,000,000 cigars per year) could be produced by 27,000 operatives (including strippers and miscellaneous workers) if the entire industry were completely mechanized, and if the ratio of displacement remained the same as that estimated by the Department of Labor. (See the chart on the following page.) Improved machinery would, however, accomplish the same result with fewer machine operatives.

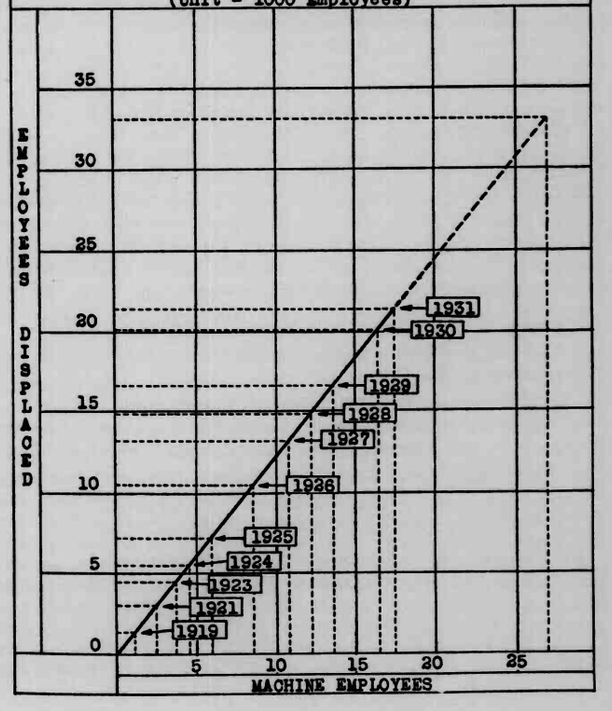
If such complete mechanization of the cigar industry were precipitated or rendered inevitable by the terms of the Code of Fair Competition, the

CIGAR INDUSTRY

Labor Displacement by Mechanization

A projection of the Labor Department's estimate of displacement is given below. It will be seen that complete mechanization (for production of 4.5 billion cigars) will be effected when the number of machine operatives reaches 27,000, at which point 33,000 employees will have been displaced.

Ratio of machine workers to hand workers - 1 : 2.22



weekly hours of work must be reduced from 45 to 14.5 in order to absorb the 57,000 workers who would be unemployed (84,000 having been employed in 1929). This compares strikingly with the 29 hours required (as calculated on a previous page) if the present handworkers were not further displaced. However, since a considerable part of the unemployment created by complete mechanization would be the result of the present-day decreased consumption of cigars, the machine could not be called on to bear the entire unemployment burden, unless, indeed, production should reverse its trend and recoup its lost ground. Cigar production has declined approximately 30% since the industry employed 84,000 workers. Unless production increased (in response to a possible increase in consumption), the industry could not justly be required to carry more than about 70% of the 84,000 workers, or about 60,000 altogether. Since only 27,000 would be employed by a fully mechanized industry this would mean that in order to carry 60,000 workers, 33,000 must be absorbed instead of 57,000, which would be the case if the unemployment caused by decreased production were not subtracted. These 33,000 could be absorbed by decreasing the work week from 45 hours to 20.3 hours instead of 14.5 hours. There would then be left no less than 24,000 workers without hope of finding re-employment in the industry unless production increased beyond 4,500,000,000 cigars per year. On the other hand, if mechanization were curbed, and the present quota of handworkers retained; and, in addition an allowance of 30% of unemployment were made, in keeping with reduced cigar production, a work week of 37.3 hours instead of 29 (26.6 hours if a base of 41.25 hours is used—Census figures) would be sufficient to carry 60,000 workers. This would again leave 24,000 workers out of employment. The industry could absorb them only in proportion to increased production beyond 4,500,000,000 cigars per year.

Summing up the various alternatives thus presented, we have:

1. Under complete mechanization (basing calculation on 43.3 hours actually worked instead of 45):
   a. To employ 84,000 workers—14-hour week.
   b. To employ 60,000 workers, allowing approximately 30% for compensation of reduced production—19.6 hours.
2. Under existing equilibrium of hand and machine production:
   a. To employ 84,000 workers—26.6-hour week.
   b. To employ 60,000 workers—37.3-hour week.

By the foregoing considerations we are brought face to face with severel serious questions: 1. Does the National Industrial Recovery Act intend that the Code should operate to precipiate or favor mechanization of industry? If it does, what provision is to be made for the cigar workers who cannot be absorbed by the cigar industry? And what is to become of the proprietors of many hand factories and small shops? 2. If the law

does not intend that the existing equilibrium between the mechancial and handicraft branches of the industry is to be disturbed, by what equitable means can the existing equilibrium be maintained?

1. The first question can best be answered by turning to the law itself and deducing from it what code provisions would be in accord with it and what would be illegal. Section 3(a) of the Recovery Act stipulates that Codes "are not designed . . . to eliminate or oppress small enterprises and will not operate to discriminate against them." This language, by the nature of the case, prohibits the promulgation of a code which would place the handicraft branch of the industry at a distinct competitive disadvantage. The minimum cost of an automatic machine unit is $8,400 (two machines—which is the minimum unit). This sum is obviously beyond the reach of thousands of small hand-manufacturers. Any Code, therefore, which would operate to disable the hand-manufacturer to compete with the machine-made cigar manufacturer, and thus force him to install automatic machinery or forsake the business, would do what the law is designed not to do. It would eliminate him. But it is not necessary that the Code operate actually to eliminate the small producer; to contravene the intent of the Act, it need only oppress him. To place him at a competitive disadvantage would fulfill that condition and would violate the Act.

The mechanization of the cigar industry must be considered not on an individual and isolated basis, but as a part of the broad problem of technological advance. It becomes necessary therefore to consider the economics of industry and the social philosophy under which industry operates, because these considerations are of the very essence of the problem.

The machine is not looked upon as a natural enemy of labor, but as a potential enemy. Whether it becomes in fact an enemy depends upon the conditions under which it is introduced. If it is introduced simply as a device for the reduction of labor costs for the greater profit of the manufacturer and the benefit of the consumer, wihout regard to the effect on labor, the machine is actually an enemy of labor. It becomes then an agency for alienating the laborer from the only claim to a livelihood which he possesses, a claim which to him is no less precious, and even more vital, than are employers' proprietary or property rights which are so zealously guarded by the law and the judiciary. Such displacement of labor is a wholly irresponsible and conscienceless method of industrial advance, and violates the most rudimentary human right, which is the right to gain a livelihood through the exertion of mind and body, which is all the laborer, in most instances, has.

In a civilized state wherein social responsibility is accepted as a brake on license, the machine can no longer be permitted thus irrespon-

sibly to separate human beings from those rights which in the Declaration of Independence were denominated as inalienable. This does not mean, however, that the machine must be eliminated. It merely means that it must bear its share of he general burden. The right to progress technologically does not transcend the human right to live. The latter is the most elementary and first right of all. The advance of the machine must be tempered accordingly. It should be introduced only under such considerations as will not deprive vast numbers of people of their first and transcending right.

The machine so considered, and introduced under such conditions, is not an enemy of labor, but a friend. The right to reap a profit under a system of planned economy must stand second and after the right to live. Before the pleasure of a few is looked after, the misery of the many must be considered. This is an injunction which the barest sense of human justice places upon us, and one to which the most refined and defensive sophistry must not blind us.

From the manufacturer's standpoint the machine is introduced because it reduces labor costs, either to gain an advantage over competitors, to increase profits, or to keep pace with competitors who have introduced machinery. It is a sophism to say that the introduction of machinery creates sufficient outlets in transportation and "services" to offset the immediate unemployment caused by it. If that were true, the use of machinery would not be an economy, for it would mean that the product of the machine would be weighted with just as great an aggregate of costs by the time it reached the consumer as would have been the case had the product not been made my machine. Either this is not true, or the machine is merely a plaything which brings pleasure to a few and insecurity to large numbers. Even if we grant that complete outlets in collateral services are created by the increased production which usually springs from mechanization (an hypothesis which overlooks the facts), it still remains true that such services lag behind mechanization. In many instances the lag may be for a considerable period, during which great hardships are suffered by the displaced employees. And even if there were no such lag, the immobility of labor and the tendency to seek re-employment in the field in which it is trained, together with the difference in skill required in the collateral services, and the separation of the localities in which the labor supply exists, on the one hand, and where it is needed, on the other, would produce a disruption of employment. Rapid mechanization always outruns readjustment of labor supply and leaves the latter in a constant state of insecurity and turmoil. Both the social level and purchasing power of skilled and unskilled labor are thus reduced. This turmoil and disruption and their attendant insecurity can only be checked by the regulation of technological speed. Even with such regulation there would still be need of a governmental employment service dedicated to the alleviation of that degree of disruption which would still be inevitable.

It is, of course, safe to say, considering the acumen of the business mind, and minding the facts, that the machine does effect an economy; otherwise the business men who buy machines would merely be the victims of salesmen. And if machines do effect an economy, the margin is taken from the total remuneration of labor. If this process should go on iddefinitely, labor would finally become wholly and hopelessly destitute. In the cigar industry, notably, labor's share of the total product has fallen 19% whereas other expenses and profits rose 11%, from 1919 to 1931. At the same time employment has been decimated.

2. If it is not the intent of the law that the small producers, including nearly all the hand shops, shall be eliminated or oppressed by the operation of the Code, there remains only the practical question of proper adjustment of the labor and operating provisions to guarantee the maintenance of an equitable equilibrium between the handicraft and machine branches of the industry.

There are several alternatives and combined possibilities:

a. The establishment of a wage and/or hour differential between machine and handicraft production.
b. Limitation of the hourly output of the machine.
c. The establishment of a quota of production.
d. A curb on the introduction of new machinery.
e. Contribution of a fixed monetary rate by the machine toward relief of unemployment caused by its displacement of workers.
f. A combination of some of the foregoing alternatives.

a. The establishment of a wage and/or hour differential between machine and hand production involves a calculation of the rates of output and costs of production by the two methods of production. Statistics gathered by the Bureau of Census, together with production figures from the Bureau of Internal Revenue, make possible reasonably accurate computations.

Production during the first six months of 1933, as reported by the Bureau of Internal Revenue was as follows:

Month	*Cigars Weighing More Than Three Pounds Per Thousand*
January	296,640,000
February	287,430,000
March	290,111,000
April	321,207,000
May	371,373,000
June	418,570,000
Total	1,985,331,000

This output was produced by slightly more than 28,726 hand-workers and 12,001 automatic machine operatives (Bureau of the Census figures). About 40% of the total was made by hand, or approximately 794,132,400 cigars; and about 60% or approximately 1,191,198,600 by machine. The period covered was 26 weeks, during which time the hand-workers were employed an average of 41.25 hours per week, and the machine operatives an average of 43.3 hours per week.

Reduced to hourly and weekly output, the following results are obtained:

Average production by hand per worker throughout the industry:

Per hour ..... 25.8 cigars
Per week ..... 1,063 cigars

Average production by automatic machine per worker throughout the industry:

Per hour ..... 88.2 cigars (4 workers 352.8 cigars)
Per week .....3818 cigars (4 workers 15,272 cigars)

A weekly wage of $14 would thus require an average rate of $13.17 per 1,000 cigars made by hand, as compared with a rate of $3.66 per 1,000 cigars for those made by machine. These figures are averaged for all classes of cigars, and make no allowance for slow workers. The average rates paid in the cigar industry, as reported by the Census Bureau, on July 1, 1933, were as follows:

RATES PER 1,000 CIGARS

	Machine				Hand			
	Men		*Women*		*Men*		*Women*	
Class	*Low*	*High*	*Low*	*High*	*Low*	*High*	*Low*	*High*
A.....	$3.32	$3.88	$2.88	$3.40	$7.31	$7.83	$4.88*	$5.73*
B.....	.....	.....	2.52	2.52	12.02	12.38	8.36	9.12
C.....	6.32	6.32	4.08	6.16	14.92	18.08	11.20	14.70
D.....	.....	.....	.....	.....	24.01	26.68	19.94	24.04
E.....	.....	.....	.....	.....	33.06	44.83	31.98	39.22

* These rates are obviously too low. The averages failed to take into account the difference in payments to bunch breakers and rollers. Rates for bunch breakers were averaged with the rates for rollers by the Census Bureau.

An increase in wages would obviously fall more heavily upon the handicraft group because labor costs represent a much higher percentage of their cost of production. A 20% increase over $10.00, for example, is $2.00, whereas a 20% increase over $4.00 is only 80 cents.

If the minimum rate of pay were $14 per week, 40 hours of work, direct labor cost for the hand group would be $13.57 per 1,000 cigars with

a production of 1,032 cigars per week, of all classes, with no allowance for slow workers. Direct labor cost for machine-made cigars, working 40 hours per week, with a production of 88.2 per hour at $14.00 per week, would be $3.97 per worker for 1,000 cigars. Adding fixed charges and overhead, we arrive at the following cost per 1,000:

Direct labor	$3.97
Machine royalty	1.00
Maintenance, oiling, etc	.65
Departmental overhead	.50
Conversion costs	.15
Rebuilding and repairs	.22
Power	.10
Depreciation	.55
Interest on machinery investment	.35
Interest and other fixed charges	.85
	$8.34

The above figures represent a liberal allowance for machine items in making a 5-cent cigar. The difference would thus be $5.28 per 1,000 in favor of the machine. Divided by forty hours, this differential would be 13.2 cents per hour.

Even if a hand production of 50% greater than that actually accomplished throughout the industry during the first six months of 1933 be assumed, and therefore a weekly output of 1,548 cigars per person admitted, the hand cost for direct labor would still be $9.08 per 1,000 or 74 cents above the machine cost. Such an assumption, however, is unwarranted even though in some shops where team-work is followed such an output is not unusual and is sometimes exceeded. The fact is that during the first six months of 1933 a total of 28,726 hand-workers, not including strippers, selectors, etc., working an average of 41.25 hours per week, produced approximately 794,000,000 cigars. In other words, they produced an average of 1,063 cigars per week per worker. Any assumption of output above this amount for hand workers does not take into account the actual facts, but must be based upon ideal assumptions. If the hand group produced 45% of the total output instead of 40% as estimated, the direct hand labor cost would be $12.07 per 1,000 and machine cost $8.70 per 1,000, leaving a differential of $3.37 per 40-hour week, or 8.4 cents per hour. The high machine cost thus arrived at indicates that the assumption is incorrect and that nearer 40% of the total output than 45% was produced by hand during the first half of 1933. Additional machine installation since 1931, when 44% of output was by the hand method, indicates that a smaller percentage is now produced by hand.

The conclusion, is therefore unavoidable that the differential per hour sufficient to equalize labor costs between the hand and machine group must be between 8.4 cents and 13.2 cents per hour. To say that it should be 10 cents would be to give the machine group the benefit of the doubt.

If, therefore, the minimum wage for the hand group were fixed at $14 per week or 35 cents per hour, machine operatives must be granted approximately 45 cents per hour in order to equalize costs.

This would produce the anomaly of paying less skilled workers a higher wage than that paid to relatively more skilled labor.

The above calculations assume an equal work-week for each group. If longer hours should be granted to the hand group than to the machine operatives, thus reducing the hourly wage received by the hand workers, the discrepancy would be magnified.

Finally, a work-week of 40 hours would obviously not re-employ many workers. Instead of leaving 24,000 unemployed, as would be the case if a 37-hour week were adopted, about 5% more would remain unemployed. A 37-hour week would, under present conditions, absorb only those workers who cannot be held to have lost their employment because of the 30% decline in cigar production.

b. The next alternative is the proposal of limiting the hourly output of the machine. This would operate to deprive the machine manufacturers of productive capacity for which they paid a definite sum of money. Limitation of the machine is not properly effected by a limitation of this character.

c. The establishment of production quotas for each branch of the industry, in the form of percentages, on the other hand, would accomplish several desirable results and would avoid the objectionable features involved, first, in the establishment of a differential in hours and wages between the hand and machine groups, and, second, in the limitation of hourly output by machine.

(1) It would prevent the precipitation of mechanization by creating a barrier beyond which machine production could not go. A wage and hour differential, on the contrary, would only protect the hand group as long as the speed of the machine were not increased.

(2) A quota would not, if proper flexibility be provided, penalize the machine; but merely would prevent giving added impetus to mechanization. It would render unnecessary the formal limitation of hourly output by the machine.

(3) It would avoid the economic and social anomaly of paying a higher scale of wages to relatively unskilled workers than that granted

to relatively skilled ones. More skill is required to make cigars by hand than by machines.

(4) It would permit orderly and controlled mechanization of the industry over a period of time, thus permitting gradual readjustment in place of sudden disruption. Workers who are suddenly thrown out of the cigar industry do not readily find employment elsewhere, nor are they usually employed as machine operatives in the industry. If no further apprentices were permitted in the industry, gradual mechanization would eliminate the violence of the readjustment which appears to be inevitable.

(5) No formal restriction of the introduction of new machinery would be required. It should be noted, however, that industry itself is notoriously ready to supress new inventions or processes when it is feared that their introduction would disrupt the market.

If the principle is accepted, the practical question of establishing and administering quotas, remains. The following paragraphs offer a proposal which was arrived at with full regard to the equity of its terms and their practical applicability:

In 1931 the estimated production by automatic machinery, as reported by the Department of Labor, was 2,912,000,000 cigars out of a total production of 5,348,000,000, or 54.4%. Additional machinery has been installed since 1931, so that it seems safe to say that automatic machinery now produces about 60% of the total output.

The total production of 1933 cannot yet be satisfactorily estimated, but it will probably not exceed the 1932 production, which was 4,442,000,000. In any case, if we assume a production of 4,500,000,000, the error cannot be great unless a drastic change takes place. 60% of this equals 2,700,000,000, which represents machine output, leaving 1,800,000,000 or 40% to represent hand output. Production, however, is seasonal and, to be amenable to regulation, the quota must be kept within bounds month by month. The monthly production chart on the following page illustrates the seasonal nature of cigar production, and shows why it would be necessary to maintain control over monthly production. Monthly quotas could be established upon the basis of average output for the month in question averaged over a period of years and adjusted to current reduced or increased production.

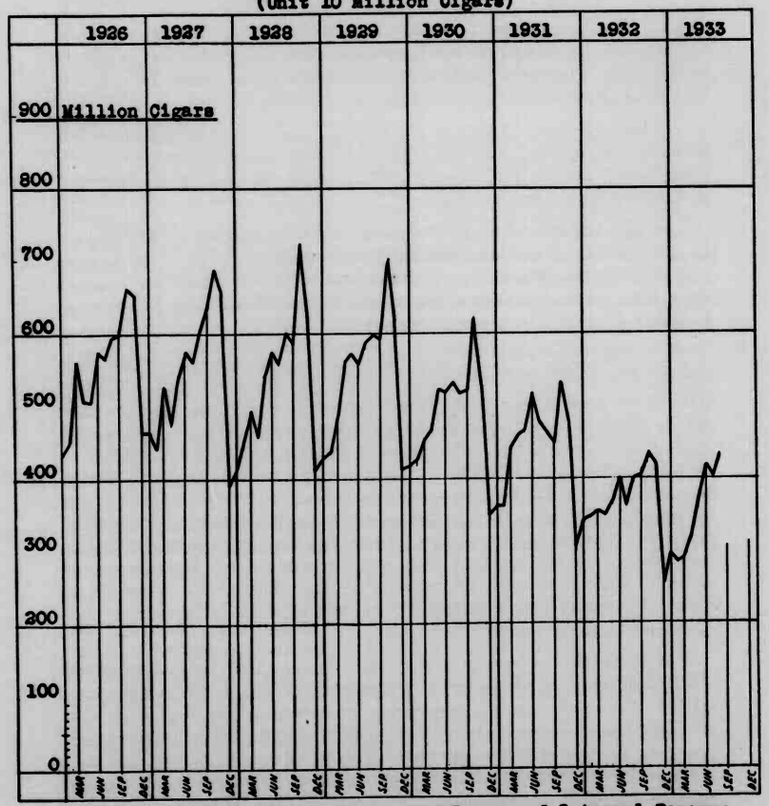
In order not to impose a restriction on machine production which would maintain a static condition, but, instead, permit the equitable mechanization of the industry, a flexible quota must be provided, beginning with 60% and increasing gradually. This 60% mechanization required sixteen years, an average of 3.75% per year. This is, of course, no hard and fast index which will be followed accurately in the future, since mechanization has not progressed uniformly. The greatest step, notably, took place

CIGAR INDUSTRY

Production of Large Cigars (Tax Paid) in Continental United States

BY MONTHS

(Unit 10 Million Cigars)



Source: Department of Commerce and Bureau of Internal Revenue.

from 1925 to 1927. Yet, the average for 16 years does not seem an inequitable percentage to propose, for unless machinery is soon improved or changed, cigars of the higher grades will not immediately be made by machine. At the rate of 3.75% per year, the industry would be fully mechanized in slightly over 10 years. See the chart following page 12. That chart indicates, off-hand, an earlier mechanization, but it does not take into account the resistance which will be offered in the higher classes of cigars, nor the retarding effect of holding the machine socially responsible, as will be proposed on a subsequent page.

It is, therefore, suggested that during the first quarter after the effective date of the Code the machine group be permitted to produce 60% of the total output; 61% during the second quarter; 62% during the third quarter, 63% during the fourth quarter, etc., adding 1% for each three-month period thereafter.

In Poor's Industry Service, **Tobacco Industry**, on page 21, it is reported that a cigar machine which will produce 14 cigars per minute, has been perfected. The introduction of this machine would increase mechanical productivity 75%; and by force of competition would render inevitable the re-mechanization of the industry. The factories which are now equipped with automatic machinery would be in a similar position to that now occupied by the hand group. Further unemployment would result, unless, indeed, the new machine were made to carry its share of the unemployment created by it, and unless its introduction were closely guarded by production quotas. There is no visible end to this progressive displacement of labor by increasingly productive machinery. It will continue as long as it is economical to do so, and as long as it is permitted. As long as it is economical, the process implies reduction of labor income and power to purchase. In the cigar industry, cheapened output or mass production has not succeeded in bringing about the increased consumption which is so ofen credited to mechanical production.

Therefore a control of machine-made cigar production is neither a tyranny nor an ill-considered step. It is justified by social necessity and by considerations which take into account, and look toward the improvement of the industry.

The adoption of regulations for, and the administration of, the quota plan should be placed in the hands of the Code Authority, representative as it should be, of all interested parties, including the Agricultural Adjustment Administration and labor. Problems of allocation of production, supervision of the quota, and similar functions would be under the jurisdiction of the Code Authority. A plan of administration with suitable provisions for elasticity to meet fundamental changes in production or consumption trends, as well as the exigencies of every-day business, such as

the fulfillment of orders received in excess of quota allowance is available in tentative form.

d. This alternative is covered under "c", subsection 4, immediately above.

e. In order to temper the introduction of new machinery or the increased productivity of existing machines, with social responsibility for displacement of employees, it is proposed that a contribution, based upon a unit of 1,000 cigars, be made by the existing automatic machinery toward an unemployment relief fund sufficient to pay each displaced worker $10 per week until such time as he may be absorbed elsewhere. Assuming 1% increased mechanization for each quarter on the basis of a total annual output of 4,500,000,000 cigars, the increased machine output would amount to 45,000,000 cigars. If we calculate 1,000,000 cigars per year per machine, it becomes evident that 45 machines would be placed in operation. These machines would require an average of 4½ employees each, or 202 for 45 machines. By the hand method, using the ratio calculated by the Department of Labor, 448.4 employees would be required. Deducting the number of machine employees required from the number of hand employees, we arrive at a displacement of 246 employees. At $10 per week for 52 weeks a total of $127,920 must be paid into the relief fund. By spreading this over 2,700,000,000 cigars which represents machine output (60% of 4,500,000,000) plus 45,000,000 (the added 1%), we arrive at a contribution of $.0466 per 1,000 cigars. For each 45,000,000 cigars added to machine output thereafter, the rate per thousand should be adjusted to the additional displacement. If a higher rate of displacement should result from the introduction of more productive machinery, further adjustment of the rate would be necessary.

Strict supervision over the Relief Fund and its adjustment to re-employment, with a lowering of the contribution according to the lowered demand on the fund because of re-employment, should be placed in the hands of a Relief Committee appointed by the Code Authority with proper regard for equitable representation of all interested parties.

Such a contribution would place the responsibility for technological unemployment squarely on the shoulders where it belongs. If relief were left to the Government, the machine, unemcumbered, would be free to create further unemployment, irresponsibly, without bothering to ask about the effect of its progress upon the displaced human beings. Unfortunately, this is exactly what has happened for years. The day has come when it should no longer be permitted.

Obviously the proposed contribution would still leave the victims of previous mechanization uncared for; but the present proposal is tempered by the practical consideration of limits to the burden which the

machine can be asked to carry. It seeks no retroactive applications of the principle embodied in it. It is realized that the machine cannot now be held suddenly responsible for the havoc created by it under a regime which tolerated social irresponsibility, but with equal reasonableness and firmness of conviction, the proposition of machine responsibility to humanity henceforward, is offered as a measure of simple equity. If the proposal does not of itself offer a complete solution, it may at least lead to a greater understanding of the problem. That we are forced to seek a solution is best answered by pointing to the suffering fellow-beings by whom we are beset. This is no idle cry. It is a reality which we as representatives, as spokesmen, and as leaders, must heed. If we are not to fail we must come to grips with the problem instead of side-stepping it. This problem of technological unemployment is one of the most crucial ones of the times. Whatever its impact on the social structure may mean in its call for changed methods and new views, we must face it and face it now.

Minimum Wages.

The minimum wages provided in the Code should make allowance for the difference in skill required by the employees affected.

We propose the following scale:

$16 per week for hand-made-cigar workers.
$14 per week for machine operatives.
$12 per week for strippers.

A strict limitation should be placed upon the induction of apprentices as long as there are thousands of qualified cigarmakers out of work.

A tolerance of 25% of the total cigar makers employed should be allowed for slow and inefficient workers in the hand factories, with the burden of proof of inefficiency placed on the manufacturer. The rate paid to these slow and inefficient workers should be determined by the Code Authority.

The President's Re-employment Agreement provides a wage of 22½ cents per hour for strippers. This low rate is defended, if at all, by pointing to the high cost of stripping which would result from a higher rate. This is an exaggerated alarm since stripping cost represents only approximately 3½% of total cost of producing a 5-cent cigar. An increase in wage for strippers from 22½ cents per hour to 30 cents would thus amount to about 1% increase in cost.

The minimum rate must be paid wherever stripping is done, whether in the factory, on the farm, or elsewhere.

Hours of Work.

As demonstrated in the body of this brief, anything above a 37-hour week would not absorb sufficient employees to bring the total employed to 60,000. To do this a 37-hour week is needed. Compared with 1929 this would still leave 24,000 unemployed. Decreased production makes this inevitable. A 37-hour week would provide for their absorption as and if production increases.

Because of the seasonal character of cigar production, operation up to 40 hours per week should be permitted during 16 weeks in each calendar year, provided that these excesses be deducted from the average of 37 hours, so that the average for the year would not be over 37 hours per week.

Miscellaneous.

No home work should be permitted.

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